

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6195

BILL NUMBER: HB 1056

NOTE PREPARED: Nov 17, 2008

BILL AMENDED:

SUBJECT: Military Service Credit for TRF Members.

FIRST AUTHOR: Rep. Kersey

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill grants, under certain conditions, up to six years of service credit in the Teachers' Retirement Fund (TRF) for a member's past active duty military service.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Summary-* The total annual cost for crediting military service in TRF is estimated to be between \$3.5 M and \$4.5 M, while the total increase in unfunded accrued liabilities is estimated to be between \$51 M and \$78 M.

Of the \$3.5 M to \$4.5 M total annual cost, an estimated \$2.9 M to \$3.4 M is attributable to the Pre-1996 Fund, which is paid from the state General Fund, and approximately \$0.6 M to \$1.1 M is attributable to the 1996 Fund, which is paid by local school corporations.

Of the total unfunded accrued liability of \$51 M to \$78 M, approximately \$40 M to \$57 M is attributable to the Pre-1996 Fund, and approximately \$11 M to \$21 M is attributable to the 1996 Fund.

NOTE: This fiscal impact estimate is based on 2007 data. It will be updated upon receipt of 2008 data.

Background Information: The TRF conducted a survey to determine the potential number of retirees who might qualify for this benefit. There were 40,000 retirees reported in the July 1, 2007, valuation data. Approximately 6,300 of the retirees were born prior to 1936. Surveys were sent to 5,800 of these members, of whom, 3,000 responded to the survey.

Participants born after 1935 were not surveyed because of the absence of data to support cost calculations for participants that served after the Korean War. However, using methodology and assumptions consistent with the calculations for participants with WW II and Korean War military service, potential costs have been developed to include all participants.

Post-Korean War Military participation is assumed to range between 10% and 20% of the male TRF membership.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures* for the impact to the 1996 Plan. The 1996 Plan is funded by local school corporations with a level percent of payroll. Currently, school corporations contribute 7.25% of payroll, effective July 1, 2007, through December 31, 2008. Going forward, TRF will set the rate on a calendar year basis. The CY 2009 rate will be set in early 2008.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School corporations with members in the Teachers' Retirement Fund.

Information Sources: Alliance Benefit Group; 317-803-7777.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Funding— A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability - The unfunded liability of a retirement system at any time is the excess of its actuarial liability as that time over the value of its cash and investments.